

No. 18-801

IN THE
Supreme Court of the United States

LAURA PETER, DEPUTY DIRECTOR, UNITED
STATES PATENT AND TRADEMARK OFFICE,

Petitioner,

v.

NANTKWEST, INC,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

**AMICUS CURIAE BRIEF OF THE
ASSOCIATION OF AMICUS COUNSEL,
INFOTECH LAW OFFICES, ISSHIKI &
CO., AND LAW OFFICES OF HIRAIDE &
TAKAHASHI IN SUPPORT OF RESPONDENT**

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STATEMENT OF INTEREST OF *AMICI CURIAE*¹

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1. No party or its counsel authored this brief in whole or in part, and no such party or counsel made a monetary contribution intended to fund the preparation or submission of this brief. No persons other than the amicus curiae or their counsel made a monetary contribution to its preparation or submission. The parties were provided with proper notice and have consented to the filing of this brief.

and located in Japan each of whose law practices includes the handling of legal matters for a diversity of clients. Such clients include those who are actively interested in the development, procurement, and protection of property rights including intellectual property in inventions and trademarks in a full range of technologies, goods, and services in various jurisdictions, including the United States. None of the aforesaid law firms nor to their knowledge do any of their clients or affiliates have a financial stake in any of the parties to this litigation or in the outcome of this case. As named amici curiae herein, InfoTech Law Offices, Isshiki & Co., and Law Offices of Hiraide & Associates, like many other firms throughout the world, are interested in the correct and consistent interpretation of laws as they relate to intellectual property issues of concern to themselves and their clients.

The herein-identified amici curiae submit this brief pursuant to Spm. Ct. R. 37 in support of the affirmance of the decision of the Federal Circuit in favor of NantKwest, Inc.

SUMMARY OF ARGUMENT

I. Introduction

The susceptibility of human language to imprecision often gives rise to ambiguities that are not immediately obvious or discernible, resulting in differing or skewed understandings of words and phrases which may in turn lead to misperceptions. Apropos of the present case, the ubiquitous statutory terms ‘fees’, ‘attorney fees’, ‘costs’, ‘full costs’, ‘expenses’, and ‘all the expenses’, are prone to being misread and conflated unless attention is paid to the

underlying legislative “scaffolding,”² judicial precedents, and governing contexts.

In statutory construction, the correct meaning of a polysemous word or phrase that is not expressly defined depends on the surrounding context in which it is used. To misunderstand or ignore that context is to invite judicial holdings that contradict public policies and purposes by extrapolating beyond the lawmakers’ intent. Thus, and as this Court has held in the term just passed, “context” is critical for statutory construction. *Return Mail, Inc. v. United States Postal Service, Inc.*, 139 S. Ct. 628 (2019); *Rimini Street, Inc. v. Oracle USA Inc.*, 139 S. Ct. 873 (2019).

II. Judging a Statute; The Singularity of the Issues in *NantKwest* and *Booking.Com*

1

Courts throughout the United States regard the construing of statutes as being matters of law which judges are called upon to decide and act upon every day. Judicial construction can set precedent that significantly disrupts established reliance interests and expectations, often with unintended, unforeseen, and sometimes devastating consequences. Hence, when addressing a disputed provision in a statute that hasn’t been previously

2. Neither the *Dictionary Act*, Title 1, secs. 1 through 8 (“General Provisions”) of the United States Code which defines a number of terms that establish a default legislative baseline or scaffold for congressional enactments, nor the patent or trademark statutes, define the term at issue in the statutory provisions involved in the present controversy.

construed, a jurist analyzes the relevant context to avoid inappropriate results. Not just the statute itself in terms of the prima facie meanings of the words in it, but also the etymology and lexicology of the origin, evolution, and current modalities of their usage; the intendment, purpose, and placement of them in the legislative scheme; the type of circumstances for which the statute is designed; the motives of those advocating particular interpretations of it; and relevant public policies and common-law rules, principles, and doctrines that set boundary conditions on the analysis of the statute and guide its application through rational, common-sense interpolations. What might seem unclear or ambiguous from a textualist, facial reading of a statute “as written” may, in atextual reality, be pellucidly unambiguous and therefore not subject to reinterpretation when viewed through the lens of an informed judicial perspective having due regard for all operative factors.³

In short, *it is the context – the enemy of ambiguity – that governs meaning.*

3. *Sturgeon v. Frost*, 136 S.Ct. 1061, 1070 (2016). (“The [lower] court’s reading of the [particular statute at issue in the case] may be plausible in the abstract, but it is ultimately inconsistent with both the text and context of the statute as a whole. Statutory language ‘cannot be construed’ in a vacuum. It is a fundamental canon of statutory construction that the words of a statute must be read in their context and with a view to their place in the overall statutory scheme” [citing *Roberts v. Sea-Land Services, Inc.*, 132 S.Ct. 1350, 1357 (2012)]; *Sandifer v. United States Steel Corp.*, 571 U.S. 220, 227 (2014); *Return Mail, Inc. v. United States Postal Service, Inc.*, 139 S.Ct. 628 (2019) (slip Op. at 9-10). .

a. These hermeneutical principles are at work in two intellectual-property cases currently before the Court. Both present the same question originating in separate proceedings against the U.S. Patent and Trademark Office (“USPTO” or “Agency”). In the present case, which is on a granted petition for a writ of certiorari to the Federal Circuit, an applicant for a patent, unwilling to accept the Agency’s refusal to grant the application, sought judicial recourse in U.S. district court pursuant to Section 145 of the Patent Act (35 U.S.C. §145). In the other case, which is on a pending petition for a writ of certiorari to the Fourth Circuit in *Booking.Com B.V. v. USPTO et al.*,⁴ an applicant for a series of trademark registrations, dissatisfied with the Agency’s rejections, sought judicial recourse pursuant to Section 1071(b) of the Trademark Act (15 U.S.C. §1071(b)). Together, these cases have polemicized the meaning and scope of the word “expenses” currently residing in the following provision in the last sentence of 35 U.S.C. §145 which requires that

“[a]ll the expenses of the proceedings shall be paid by the applicant,”

and in the following provision in the first sentence of 15 U.S.C. §1071(b)(3) which requires that

“all the expenses of the proceeding shall be paid by the party bringing the case...”

4. 915 F.3d 171 (4th Cir. 2019), U.S. Spm. Ct. Case No. 18-1309 docketed April 16, 2019.

If the Court grants Booking.Com B.V.’s petition for certiorari, then it will have the opportunity to decide definitively once-and-for-all and across-the-board, a singular issue of first impression in the Court’s intellectual property jurisprudence which was expressly addressed in conflicting opinions by two U.S. courts of appeal. Specifically, the question presented for decision by this Court in both cases can be stated as follows:

In de novo adjudication in U. S. district court of USPTO denials of patent and trademark applications, does the term “all the expenses” in the foregoing enabling statutes exclude legal costs, particularly the pro rata salaries of the Agency’s in-house attorneys and paralegal employees?

Deciding the cases together would focus the Court’s attention in resolving, in a balanced and expeditious way, the split of authority between the Federal Circuit’s 2018 divided en banc ruling in *NantKwest*, and the Fourth Circuit’s 2015 divided panel ruling in a trademark case, *Shammas v. Focarino*⁵ which the Court declined to review in 2016 and whose holding was followed in the Fourth Circuit’s 2019 panel ruling in *Booking.Com*.

b. As is typical when construing statutes, the solution to the problem of ascertaining the meaning and scope of the expense-shifting (or reimbursement or recoupment) provisions in Section 145 and Section 1071(b)(3) reduces to mapping and navigating the contours of the phrase “all the expenses of the proceeding(s)” *within the governing statutory context*.

5. 784 F.3d 219, 221, 225, 227 (4th Cir. 2015), *cert. denied sub. nom. Shammas v. Hirshfeld*, 136 S.Ct. 1376 (2016).

The courts in *Shammas* and in *NantKwest* were tasked with deciphering the meaning and scope of “all the expenses of the proceeding(s)” recoverable by the USPTO in defending Section 145 and Section 1071(b) civil actions, respectively, and particularly whether the term encompasses the relevant (pro- rata) salary amounts paid to legal-staff attorneys and paralegal assistants employed in the USPTO’s Office of the Solicitor. The issues in those cases (including now *Booking.Com*) are indistinguishable.

Having granted the USPTO’s petition for certiorari in *NantKwest* and given the potential granting of *Booking.Com*’s petition, the Court appears poised to decide whether the American Rule against fee-shifting is pertinent when interpreting the phrase “[a]ll the expenses of the proceeding(s)” in Sections 145 and 1071(b)(3), and the collateral question of whether that phrase, in its statutory context, aside from the American Rule, can be interpreted to require the awarding of legal costs, and specifically the compensation paid by the USPTO to its in-house legal and paralegal personnel who assisted in defending the Agency. That is precisely and expressly all that the USPTO in *NantKwest* and in *Booking.Com* seeks to recover in its motions for legal costs *qua* “expenses”. In other words, the USPTO asserts that, under the two statutes, it is entitled to mandatory reimbursement for the pro-rata salaries of its legal staff: in-house attorneys and paralegal assistants in the Agency’s Office of the Solicitor. Yet the Agency’s merits brief in *NantKwest* is replete with references to USPTO “personnel” without the qualifying adjectives

‘legal’ (as in ‘legal personnel’) or “attorney” (as in ‘attorney personnel’). It thus conflates the pro rata salaries of its legal/attorney personnel with the salaries of its non-legal/attorney personnel, with paralegal salaries bridging the gap between the two categories.

The implications of the issue as thus framed and argued by the USPTO are problematic. The USPTO’s non-legal/attorney personnel salaries cannot be “expenses” *qua* litigation costs for the same reason that legal/attorney personnel salaries are not. If personnel salaries are adjudged to be expenses without partitioning them between legal costs and litigation costs, then reimbursement would be also required for invoiced fees paid to outside lawyers that might be incurred by the Agency in future cases.⁶

The legal implications and real-world business and financial consequences of the Court’s forthcoming decision for inventors, trademark originators and owners, their assigns, and others in the worldwide business community will be far-reaching and of exceptional, fundamental importance to the entire class of stakeholders in the U.S. intellectual property system. That this is especially true

6. The USPTO’s argument attempts to equate the pro rata salaries of the Agency’s relevant legal staff, i.e., its in-house attorneys and paralegals who worked on the case, with litigation costs as though they were somehow qualified as being “expenses”. However, under the case law, legal staff salaries are deemed to be within the category of legal costs *qua* “attorney fees” and not litigation costs *qua* non-attorney employee salaries. *See, Fanning, Phillips & Molner v. West*, 160 F.3d 717, 720-22 (Fed. Cir. 1998).

for individuals and start-up companies having limited financial resources, and other organizations both in the United States and in other countries for whom U.S. patents and trademarks are valuable assets, cannot be overstated.

ARGUMENT

I. The Availability of De Novo Adjudication of USPTO Denials of Patent and Trademark Applications Should be Fully Preserved as a Viable Recourse for Aggrieved Applicants

Congress created access to the federal court system for patent and trademark applicants who were unsuccessful at the administrative stage, by giving them a choice of two options for exercising their constitutional right “to petition the Government for a redress of [their] grievances” by recourse to judicial intervention.⁷ Both the patent and trademark statutes enable such access through (i) direct appellate review by the court of appeals, or alternatively, (ii) adversary adjudication in district court, of USPTO refusals to grant patents or to register trademarks.

NantKwest, Inc. was entitled to choose between the two options for judicial recourse when the USPTO affirmed the examiner’s rejection based on an administrative determination that some of the claims in the patent application were not patentable. Booking.Com had a similar choice when the USPTO affirmed the rejections of its applications because the marks were deemed not registrable.

⁷ See, *Bill Johnson’s Restaurants, Inc. v. N.L.R.B.*, 461 U.S. 731,741 (1983).

a. One option would have been to appeal directly from the USPTO to the Federal Circuit. Under the enabling statutes, the court “shall review the decision [of the USPTO based solely] on the record [of the issues, evidence, and arguments that were presented and decided] before the [Agency]”.⁸ With the exception of commonly known, self-evident information that would qualify for judicial notice, the scope of review is cabined by the administrative record transmitted from the Agency to the court, which may be less than complete.⁹ On that basis, the court must decide the appeal in accordance with the highly deferential “substantial evidence” standard of review under the *Administrative Procedure Act*.¹⁰ For these reasons, such review is often futile.

b. When deciding these appeals, the court reviews the Agency’s legal conclusions de novo; but it will defer to and adopt the Agency’s fact-findings if they appear to be reasonably supported by at least a scintilla of probative (i.e., substantial) evidence in the record. At the conclusion of the appeal, litigation costs (known colloquially as ‘hard costs’) some of which are defined in 28 U.S.C. 1920 and which are exclusive of legal costs (a term often used interchangeably with ‘attorney fees’), are awardable (taxable). Legal costs may at the court’s *discretion* be awarded.

8. For patent cases, *see* 35 U.S.C. §141(a) and §144. The corresponding provisions for trademark cases are in 15 U.S.C. §1071(a) (1) and (a) (4).

9. 35 U.S.C. 143 and 15 U.S.C. 1071(a)(3).

10. 5 U.S.C. §701 et seq.; *Dickinson v. Zurko*, 527 U.S. 150, 152 (1999).

c. In these appeals, the appellee-USPTO is usually represented primarily by its own salaried, legal staff in the Agency’s Office of the Solicitor.¹¹

2

a. The other option, which informs the context of the present controversy, is a review ‘de novo’ by civil action against the USPTO in federal district court in which the applicant and the USPTO can supplement the administrative record. Both NantKwest and Booking.Com chose this route for that purpose. Such civil actions are adversary adjudications between the USPTO and aggrieved applicants enabled by Sections 145 and 1071(b) which confer jurisdiction in the district court (venued specifically in the Eastern District of Virginia in patent cases) which “may adjudge that such applicant is entitled to receive a patent [or a trademark registration] . . . as the facts in the case may appear”

b. In these actions the role of the district court is duplex: on the one hand, the court functions as an external tribunal positioned at the post-examination, pre-issuance stage of the overall prosecution schemes of patent and trademark applications, and as such it has oversight of the Agency’s final decisions;¹² on the other hand, the proceeding is a plenary, Article III proceeding wherein new or additional issues, information, and evidentiary

11. 35 U.S.C. §3(b)(3). Under 5 U.S.C. 3109, the USPTO can hire experts, including outside attorneys.

12. *Gandy v. Marble*, 122 U.S. 432, 439 (1887); *CAE Inc. v. Clean Air Eng’g Inc.*, 267 F.3d 660, 673-74 (7th Cir. 2001); *Kappos v. Hyatt*, 566 U.S. 431, 434 (2012).

modalities – testimonial and demonstrative as well as documentary, obtained through discovery or otherwise – pertinent to the application may be presented by either party and received in evidence and considered. The issue(s) on which the court may entertain additional evidence include any that were or could have been raised and considered at the administrative stage, e.g., in the case of patent applications: patent eligibility; claim construction; the utility, novelty, and obviousness of the invention; double patenting; and the adequacy of the invention disclosure in the application specification.¹³

c. The district court in these cases arrives at its own fact-findings and determines for itself, based on the administrative record coupled with new submissions, what the operative law is separate from and independent of the conclusions reached by the USPTO. The adjudication is thus *de novo* as to both the facts and the law, without deference to the USPTO’s administrative findings of fact and legal conclusions.¹⁴ In contrast to the first option of appealing directly from the USPTO to the court of appeals, a civil action can culminate in a non-jury (bench) trial.

d. In all cases, the USPTO is represented, *usually free of charge as to legal costs*, by lawyers in the U.S. Attorney’s Office of the Department of Justice (“DOJ”). They serve as lead litigation/trial counsel, with the cooperation and assistance as needed from the legal staff

13. 35 U.S.C. §§101, 102, 103, 112. *See, Troy v. Samson Mfg. Corp.*, 755 F.3d 1322, 1327 (Fed. Cir.2014).

14. *See, BTG Int’l Ltd. v. Kappos*, No.1:12-cv-00682, 2012 WL 6082910, at *4 (E.D. Va. Dec.2, 2012).

in the Solicitor's Office of the Agency who are statutorily relegated to the subordinate role of associate counsel.¹⁵

e. After the proceedings are concluded, the court judges the case holistically, taking into account the issues, evidence, and arguments submitted. If the plaintiff-applicant prevails, then it could have been able, under the 1980 Equal Access to Justice Act ("EAJA"),¹⁶ to seek an award, pursuant to Fed.R.Civ.P. 54(d) ["Costs; Attorney's Fees"], of litigation costs under (d)(1) ["Costs Other than Attorney's Fees"] *were it not for the **now** explicit statutory expense-shifting in favor of the USPTO* in Section 145 and in Section 1071(b)(3). The plaintiff might also have been able to seek reimbursement of its legal costs under (d)(2) ["Attorney's Fees"] *but for the USPTO's **recent** contention that such costs are part of "all the expenses of the proceeding" and are to be mandatorily awarded to the Agency in every instance.*¹⁷

f. It should be noted that these civil actions are an intermediate stage in the adjudication process because judgments of the district court are reviewable in the court of appeals where DOJ lawyers continue to represent and guide the USPTO, *again without charging the Agency*

15. See 28 U.S.C. §§514-519, 543, 544, 1291, 1294(1), and 1295(a)(4)(C).

16. See 28 U.S.C. §2412(d).

17. The Federal Rules of Civil Procedure consistently differentiate litigation costs on the one hand, and attorney fees as being legal costs on the other. See, e.g., Fed.R.Civ.P. 37(a)(5)(A) & (B), (d)(3), and (f) ["reasonable expenses . . . including attorney's fees].

*for the DOJ's legal costs.*¹⁸ As in direct appeals from the USPTO to the Federal Circuit under the first option, litigation costs – *but rarely legal costs* – associated with appeals from the district court to the court of appeals *may* be assessed and awarded to the prevailing party.

3

The foregoing comparison reveals why the continued availability of Article III recourse from adverse USPTO rulings via plenary civil action is both necessary and indeed, vitally important for applicants whose administrative appeals may have been wrongly decided because the evidence in the record was incomplete for whatever reason. For example, the evidence may not have existed, or was otherwise unavailable, unappreciated, or deemed unnecessary or inappropriate to submit at the administrative stage, or could not be presented in a form that the Agency would have had an opportunity or been able or willing to assimilate and assess fairly, either in the application at hand or in a requested continued examination of it, or in a continuing application or reissue application. Thus, the right of civil action provides stakeholders in the U.S. patent and trademark systems with a meaningful, practical, expansive, and altogether irreplaceable alternative to the streamlined – i.e., less comprehensive if not cheaper - direct review in the Federal Circuit. To ignore this dichotomy, or to argue that civil actions merely serve only to give an applicant with deep pockets a mulligan in the prosecution process - a

18. 28 U.S.C. §1295(a)(4)(C). *Hyatt v. Kappos*, 625 F.3d 1320, 1337 (Fed. Cir. 2010) (en banc), *aff'd*, 566 U.S. 431, 444, 446, 132 S.Ct. 1690, 1694, 182 L.Ed.2d 704 (2012).

redundant, unnecessary, and hence dispensible alternative to direct appeals from the USPTO to the Federal Circuit would be either naïve or disingenuous.

Hence, the availability – and viability – of the existing right of de novo adjudication of USPTO denials of patent and trademark applications should be fully preserved against unwarranted incursions that would stifle that right. Beginning in 2012, this Court in *Kappos v .Hyatt* and its progeny changed the landscape of judicial review of agency action by rejecting the USPTO’s argument that in Section 145 civil actions the district court can and should exclude evidence no matter how relevant and hence admissible under the Federal Rules of Evidence, if it somehow “could have been” introduced at the administrative stage. Disappointed, the USPTO sought to eliminate Section 145 altogether through legislative lobbying which failed.¹⁹ Then it hit upon the idea of interpreting the expense-shifting provision in Section 145 (as well as in Section 1071(b)(3)) to include the mandatory awarding of the Agency’s legal costs by shifting them to the plaintiff-applicant in every instance, thereby accomplishing by financial deterrence in court what it could not achieve in the halls of Congress.

19. H.R. 3309 (113th Congress) introduced Oct. 23, 2013 titled INNOVATION ACT. Its purpose was “to amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections and for other purposes”.

II. The Patent Case: The *NantKwest* Saga

In 2001, European immunologist Dr. Hans Klingemann described a method for treating cancer and claimed it in U. S. non-provisional patent application no. 10/008.955 titled “Natural Killer Cell Lines and Methods of Use,” which was assigned to NantKwest, Inc.’s predecessor, CoNKwest, Inc.

In October 2013, the PTAB affirmed part of the examiner’s December 2010 obviousness rejection of several claims in the application.

On December 20, 2013, in order to present additional evidence of patentability in traversal of the PTAB’s adverse ruling on obviousness, the applicant instituted a Section 145 civil action (Case No. 1:13-cv-1566) for de novo review in the Eastern District of Virginia.

On September 2, 2015, in an unpublished Memorandum Opinion and Order, the district court granted the USPTO’s motion for summary judgment on the substantive merits of patentability, holding that the additional evidence, taken together with the administrative record, did not overcome the obviousness rejection. That summary judgment was affirmed by a divided Federal Circuit panel on May 3, 2017. *NantKwest, Inc. v. Lee*, 686 F.3d 864. 865 (Fed. Cir. 2018).

On September 16, 2015, fourteen days later, the DOJ attorneys for the USPTO filed a “Motion For Reimbursement Of [the Government’s] Expenses And Attorney Fees” totaling \$111,656.39 pursuant to the Agency’s expansive interpretation of the “[a]ll the expenses of the proceedings shall be paid by the applicant”

provision of Section 145. (Note the Government’s use of the conjunctive “And” as opposed to “Including”, which suggests the implicit acknowledgement that, in this context, “expenses” on the one hand and “attorney fees” on the other are indeed qualitatively separate and independent terms.²⁰

On February 5, 2016, in a Memorandum Opinion and Order, the court, in accordance with the “all the expenses” provision” in Section 145, granted that portion of the Government’s motion seeking an award of the USPTO’s litigation costs in the form of expenditures for expert witnesses in the amount of \$33,103.89. However, the court denied the rest of the motion as being, *inter alia*, unauthorized by Section 145 and in derogation of the common-law doctrine in this country known as the American Rule (discussed below) against the shifting of attorney fees, insofar as the Government sought reimbursement of its legal costs in the form of salaries of the USPTO’s in-house law personnel attributed *pro-rata* to two attorneys and a paralegal assistant who were “diverted” from their tasks on other matters in order to work on the case. *NantKwest, Inc. v. Lee*, 162 F.Supp.3d 540, 541-43, 546 (E.D. Va. 2016). On April 1, 2016, the Government appealed to the Federal Circuit which heard oral arguments on February 9, 2017.

20. USPTO Cert. Petition, pp. 7-8. The USPTO differentiates “expenses” from “attorney fees” in its own rulemaking. Thus, 37 C.F.R. 42.12 (b) lists the sanctions against misconduct which the PTAB may impose upon parties appearing before it, including “(6) An order providing for compensatory expenses, including attorney fees;”.

On June 23, 2017 a divided three-judge Federal Circuit panel reversed the district court's denial of the Government's motion for reimbursement insofar as it requested an award of the USPTO's legal costs. *NantKwest, Inc. v. Matal*, 860 F.3d 1352 (Fed. Cir. 2017). The majority had been persuaded that "all the expenses" to be awarded against ("shifted" to) the plaintiff-applicant under Section 145 must include the pro-rata salaries of the USPTO's in-house legal staff who assisted the DOJ attorneys in the case, regardless of whether or to what extent the Agency prevailed on the underlying merits of the civil action, and without any analysis of the reasonableness of those salaries attributable to the time spent on the case.

On August 31, 2017, an 11-member majority of the regular active judges on the Federal Circuit voted sua sponte to vacate the June 23, 2017 panel decision, and reinstate and re-adjudicate the Government's appeal of the district court's February 5, 2016 decision. The case was set for en banc hearing with submission of new merits briefs of the parties strictly limited to the issue of whether 35 U.S.C. §145's "[a]ll expenses of the proceedings" provision requires the shifting of the defendant-USPTO's legal costs to the plaintiff-applicant in all instances. *NantKwest, Inc. v. Matal*, 869 F.3d 1327 (Fed. Cir. 2017) (*en banc*). At the court's invitation, briefs were also submitted by amici curiae, including the AAC, advocating affirmance of the district court decision and on March 3, 2018, oral arguments were heard by the full court.

On July 27, 2018 the Federal Circuit issued a divided (7-4) *en banc* affirmance of the district court's denial of the Government's motion for legal costs. *NantKwest, Inc. v. Iancu*, 898 F.3d 1177 (Fed. Cir. 2018).

On December 21, 2018 the Government, on behalf of the USPTO, appealed the *en banc* ruling by filing a timely petition for a writ of certiorari to the Federal Circuit which this Court granted on Mach 4, 2019.

III. The Trademark Case: The *Booking.Com* Saga

1

In 2011 and 2012, Booking.Com filed a series of applications in the USPTO to register variations of “BOOKING.COM.” The trademark examiner rejected the applications, and the USPTO affirmed the rejections. Booking.Com appealed under Section 1071(b) to the Eastern District of Virginia (Case No. 1:16-cv-425) and submitted survey evidence of secondary meaning to establish distinctiveness and hence registrability of the marks. The district court reversed the USPTO, and the Fourth Circuit affirmed. *Booking.Com B.V. v. USPTO et al.*, 278 F.Supp.3d 891(E.D.Va. 2017), *aff’d*, 915 F.3d 171 (4th Cir. 2019). Separately, the Fourth Circuit granted Booking.Com’s request for a stay of the mandate on its adverse decision in Booking.Com’s cross-appeal on the issue of legal costs pending this Court’s decision in *NantKwest*.

On April 10, 2019, Booking.Com filed a petition for a writ of certiorari (No. 18-1309) aimed at overturning that portion of the Fourth Circuit’s decision affirming the district court’s granting of the Government’s post-trial motion for an award, inter alia, of the Agency’s legal costs. 2017 WL 4853755. Citing the divided panel holding in *Shammas v. Focarino* as binding precedent in that circuit, the district court and the Fourth Circuit

bought into the USPTO's argument that such costs must be awarded to the Agency as part of "all the expenses" it incurred in the civil action - even though Booking.Com won on the merits of registrability.

On July 5, 2019 the USPTO filed a petition for certiorari (Spm. Ct. Case No. 19-46) to overturn the Fourth Circuit's February 4, 2019 panel decision (after *en banc* rehearing was denied on April 5, 2019) on the merits of registrability of the BOOKING.COM trademarks.

2

The Supreme Court in the coming term may (1) before deciding the present *NantKwest* case, grant or deny Booking.Com's petition for certiorari, or (2) postpone acting on the petition until it decides *NantKwest*, and then, depending on the outcome, (i) deny Booking.Com's petition, or (ii) grant the petition and issue a per curiam opinion summarily reversing or affirming the Fourth Circuit's decision in *Booking.Com*, or (iii) issue a grant-vacate-remand ("GVR") order in *Booking.Com* which would effectively overrule *Shammas sub silentio*.

Another possibility, requested by Booking.Com in its petition, and which the AAC urged in a supporting brief filed May 16, 2019, would be to grant certiorari in *Booking.Com*, and then decide it together with *NantKwest* back-to-back on the issue, thereby fostering consistency in the outcomes. Deciding the cases separately (presumably beginning with *NantKwest*) could, in all fairness, potentially hinder the USPTO's reliance upon the holding in *Shammas* which the Court had already signaled its intention to re-consider in *NantKwest*.

IV. The Federal Circuit En Banc Decision in *NantKwest* is Correctly Based on the American Rule Presumption Against the Shifting of Legal Costs

1

In the greater context of Section 145 litigation and the American Rule, the word “expenses” - with or without the prefatory adjective “all” – is *unambiguous* and connotes what it had always been understood to mean and nothing else, namely, the Agency’s case-specific disbursements for mundane items like court filing and docketing fees, witnesses (including court-appointed experts), and for travel, printing, copying, and mailing. Such expenses are *litigation costs*, including those that are taxable to a non-prevailing party under 28 U.S.C. §§1821, 1920, and 1923.²¹ These “hard costs” are separate and distinct from, and in practice are often relatively minor compared to, “legal costs”, i.e., payments of invoiced fees and pro rata salaries attributable to the professional services of lawyers and their paralegal staffs in connection with the case. Because legal costs are normally considered non-taxable, they are not to be shifted to a party that did not

21. In copyright infringement cases, “full costs” in 17 U.S.C. §505 are confined to the six categories of litigation costs specified in 28 U.S.C. §§1821 & 1920. In *Rimini Street, Inc. v. Oracle USA, Inc.*, 879 F.3d 948 (Fed. Cir. 2018), *aff’d*, 139 S. Ct. 873, 878-79 (2019) this Court rejected an expansive approach to the meaning of “full” and held that the word changes the “quantity or amount” of costs without enlarging the categories or kinds of expenses that may be awarded. In the words of Justice Kavanaugh, “A ‘full moon’ means the moon, not Mars. A ‘full breakfast’ mean breakfast, not lunch. A ‘full season ticket plan’ mean tickets, not hot dogs

incur them absent a clear basis in the law for doing so. In other words, litigation costs may be within the validly interpretable scope of “all the expenses” awardable under Section 145 whereas legal costs are not.²² In affirming the district court’s decision consistent with this principle, the *en banc* Federal Circuit ruled that plaintiff-applicants in Section 145 civil actions, whether they win or lose on the merits, are not, under the expense-shifting requirement of the statute, obligated to reimburse the USPTO for its legal costs because there was no legally supportable basis for doing so under the Federal Rules.

2

The court based its *en banc* ruling in large part on the common-law doctrine in this country known as the “American Rule” in which each party is presumptively required, in the absence of a clear, direct, and explicit abrogation or exception, to bear both its own legal costs as well as litigation costs regardless of the outcome of the case. The Rule is grounded on the policy that seeks to facilitate access to the courts by mitigating a significant disincentive against the bona fide filing and defense of lawsuits that would otherwise significantly increase a party’s burden – and apprehension - with regard to the financial downside of litigating. (In many other countries, courts ordinarily require a losing party in a litigation to pay for both legal costs and litigation costs of the prevailing party - under the so-called “loser pays rule” or “English Rule”.

22. See, *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714 (1967) and *Summit Valley Indus. v. Local 312, United Bhd. of Carpenters and Joiners of America*, 486 U.S. 717, 722-23 (1982), holding that “costs” do not include attorney fees.

The American Rule arose in the 18th Century and became established as an enduring “bedrock principle” of this country’s jurisprudence long before the 1839 enactment of the original version of the expense-shifting provisions of Section 145 and Section 1071(b)(3). It remains as such to this day in federal and most state courts.²³ And until now, during the entire 180 years of being able to seek reimbursement of “all [its] expenses” in defending civil actions under Section 145 and its predecessor statutes, and later under Section 1071(b), the USPTO always acquiesced in the American Rule by not seeking to recoup its legal costs in these cases.

V. Exceptions to the American Rule Are Nowhere to be Found in Section 145 or in Section 1071(b)(3)

1

Like most doctrines, the American Rule has exceptions – judicial, contractual, procedural, and statutory. They occur often and in various settings, but the rationale behind the rule itself hasn’t changed since its inception. And the exceptions are limited: they are narrow and their boundaries have been constrained by statutory precedent and by rulemaking. The “judicial” or “litigation” exception

23. E.g., *Arcambel v. Wiseman*, 3 U.S. (3 Dall.) 306 (1796); *Oelrichs v. Spain*, 82 U.S. (15 Wall.) 211, 231 (1872); *Stewart v. Sonneborn*, 98 U.S. 187, 197 (1878); *Alyeska Pipeline Svc. Co. v. Wilderness Soc’y*, 421 U.S. 240, 260, 95 S.Ct. 1612 (1975); *Hardt Reliance Std, Life Ins.Co.*, 560 U.S. 242, 252-53 (2010); *Baker Botts L.L.P. v. ASARCO LLC*, 135 S. Ct. 2158, 2164 (2015). The American rule has been adhered to as part of the common law in all jurisdictions in this country except Alaska. See, *Alaska Rent-A-Car, Inc. v. Avis Budget Group, Inc.*, 738 F.3d 972 (9th Cir. 2013).

stems from the inherent common-law power of a court, either with or without express statutory authority, acting sua sponte or on motion, to sanction a losing party that engages in frivolous conduct or bad-faith behavior in bringing or litigating a meritless suit or at trial. The court does this by awarding a non-offending party its reasonable attorney fees in whole or in part, subject to an abuse-of-discretion standard of appellate oversight.²⁴ Contractual exceptions arise by agreement of the contracting parties. A procedural exception can be found in Fed.R.Civ.P. 54(d) (2). An example of a statutory exception apposite to the present issue is the EAJA pursuant to which plaintiffs who sue federal agencies may under certain conditions be awarded their attorney fees.

2

The *en banc* Federal Circuit recognized that the phrase “all [the USPTO’s] expenses of the [Section 145] proceeding shall be paid by the applicant” is not like a nose of wax to be bent merely because the plain dictionary meaning of the word “expenses” is broad sense. Rather, it must be understood and consistently applied in the context of judicial interpretation of the statute in light of the American Rule which is not an option: either it governs or it doesn’t. To that point, settled law requires that any statutory exception to the Rule be stated in “specific and explicit” terms that unambiguously manifests a legislative intent to shift a party’s burden of paying its legal costs onto an opposing party. Although the presumption is not

24. See, e.g., *Octane Fitness LLC v. ICON Health & Fitness, Inc.*, 572 U.S. __ (2014) empowering district courts by statute, i.e., 35 U.S.C. 285, to award reasonable attorney fees to prevailing parties in patent cases that “stand out from the others”.

a hard and fast rule of exclusion, it may be disregarded only upon an affirmative showing of statutory intent to the contrary.²⁵

Taking a strict “plain meaning” approach, the USPTO, on the other hand, relied on non-contextual dictionary definitions to argue that the word “expenses” is so broad as to be ambiguous. In advancing its unfettered and expansive approach, the Agency contends that the predicate “all” is not just a quantitative modifier – but also a qualitative one that enlarges the categories or kinds of expenses that may be awarded, such that “all the expenses” should include legal costs in addition to litigation costs, and hence qualifies as an exception to the American Rule. Such an argument swallows the rule by isolating the term “all the expenses” in a vacuum and then ignoring the legislative history under which the congressional authors intended it to operate, or the boundary conditions of specificity imposed on any would-be exceptions to the Rule.

VI. The Rationale of the En Banc Decision in *NantKwest Operates with Equal Force in Booking.Com*

1

In rejecting the USPTO’s argument, the Federal Circuit en banc majority held that, in light of the history

25. *Runyon v. McCrary*, 427 U.S. 160, 185 (1976) (No special words or terms of art are required to create an exception to the American rule; rather, whatever words are used must be “sufficiently clear” to manifest the legislature’s intent to do so.); *Vermont Agency of Natural Resources v. United States ex rel. Stevens*, 529 U.S. 765, 781 (2000) ; *NantKwest, Inc. v. Iancu*, at 898 F.3d at 1387.

of Supreme Court jurisprudence, the American Rule precludes the shifting of legal costs in Section 145 proceedings regardless of whether the shifting is in favor of the prevailing or non-prevailing parties. In doing so, the majority explained that the term “all the expenses” in Section 145 unambiguously “falls short of [the] stringent standard of explicit specificity required by Congress and by the governing context and operation of the American Rule in order to constitute an exception”. The court cited Congress’ long history of conjunctive usage of “expenses” and “attorney fees,” both in the Patent Act and elsewhere as further grounds for treating them as separate and distinct concepts applicable to a variety of statutes in diverse types of cases that allow fee-shifting, win or lose, as well as court decisions applying the American Rule independently of who the prevailing and non-prevailing (winning versus losing) parties are.

2

The court rightly buttressed its reasoning by noting that a mandatory (non-discretionary) award to the USPTO of its legal costs in every case, on top of its litigation costs regardless of the degree of the Agency’s success or failure on the merits would set an anomalous precedent, because an aggrieved applicant who appeals to the district and wins – as Booking.Com did - would have to compensate the loser’s (i.e., the USPTO’s) lawyers for their services in failing to successfully defend the Agency. Such a result, aside from being not only awkward but grossly unfair, would be absurdly bizarre, disturbing, and fundamentally flawed: it flies in the face of not only the American Rule (which, according to the USPTO’s own argument, would otherwise apply) but also the “loser pays” English Rule as

well. To penalize a plaintiff for achieving a hard-earned victory by forcing it to pay its adversary's lawyers would hardly be the right way to vindicate a just cause. It would simply make no sense. There is no valid principle rooted in American litigation jurisprudence that supports taking money from a winner's purse and giving it to the loser's lawyers as a reward for failure.

3

Thus, the USPTO's argument cannot withstand scrutiny – it doesn't add up and should be seen for what it really is, to wit, politically motivated legerdemain aimed at marginalizing civil actions by raising the financial bar for aggrieved applicants in need of de novo recourse. Having failed repeatedly to lobby Congress to abolish legislatively the 180-year-old right of de novo recourse by civil action, the USPTO is now creating needless tension with the American Rule by going against Congress's purpose in enacting the EAJA.

If the Court decides the issue correctly, then the USPTO can no longer demand that the district court in all Section 145 and Section 1071(b) civil actions impose a non-discretionary, confiscatory tax in derogation of both the American Rule and the EAJA. No longer could the Agency flout the EAJA, whose purpose is to mitigate the risk of exposing plaintiff-applicants to the Government's legal costs and consequent financial deterrence for those who otherwise would not be able to afford the appeal. By any logic, it would simply be wrong for the USPTO's interpretation to prevail because a win for the Agency would violate the "equity-of-the-statute rule" against construing a statute contrary to its legislative purpose

when doing so would create injustice by erecting a perverse and entirely unjust financial barrier as a confiscatory tax designed to exact an unpredictable and uncapped toll that would undermine Section 145 by discouraging aggrieved applicants from exercising their statutory right to seek de novo judicial review of adverse USPTO decisions..

4

Only Congress – not the USPTO nor the courts - has the power to change or rewrite a statute that the lawmakers enacted and which was signed into law by the President. Only an Article III court – not the USPTO - can interpret a statute that Congress enacted and which the Agency neither administers nor has the power to construe in a manner contrary to how the statute was continuously understood and applied over the decades since its enactment so as to in effect fashion a new statute.²⁶

VII. The Split of Authority in the Circuits Justifies Deciding *NantKwest* Together With *Booking.Com*

1

The granting of the USPTO's petition for certiorari has set the stage for resolving a binary, inter-circuit split of authority – both horizontal and vertical - between the Federal Circuit decision in the present case, and the earlier Fourth Circuit decision in *Shammas.in* which a divided panel bought into the PTO's expansive

26. *Chevron Inc. v. Natural Resources Defense Council*, 467 U.S. 837 (1984); *Henry Schein, Inc. v. Archer & White Sales, Inc.*, 586 U.S. ____, 139 S.Ct. 524 (2019).

interpretation of the expense-shifting language in Section 1071(b)(3). The district court and the Fourth Circuit in *Booking.Com* were in turn obligated to follow the holding in *Shammas* because of *stare decisis*. The vertical split stems from a judicial fault line separating the different appellate jurisdictions of the Fourth Circuit and the Federal Circuit over judgments of the Eastern District of Virginia under Section 1071(b) of the Lanham Act, and Section 145 of the Patent Act, respectively. Thus, in *Booking.Com*, the district court was bound by the Fourth Circuit panel decision in the *Shammas* trademark case, whereas the same district court in *NantKwest* was not so bound because of the Federal Circuit’s exclusive appellate jurisdiction in Section 145 cases.

2

The *en banc* Federal Circuit majority in *NantKwest* characterized the panel holding in *Shammas* as an overly expansive and “incorrect interpretation” of the expense-shifting provision in Section 1071(b)(3) which, being applicable only to cases arising under the Trademark Act, is therefore not controlling authority in Section 145 patent cases. On the other hand, the dissent in *NantKwest* characterized the circuit split as “unfortunate and unnecessary” because the majority did not expressly hold that *Baker Botts* had overruled *Shammas*; had the majority done so, then it would have effectively done away with the split by eliminating *Shammas* from being any kind of precedent. It is to be expected that, the present state of affairs will soon be righted in view of the granting of certiorari in *NantKwest* and the possible granting of certiorari in *Booking.Com*. There are other, apposite cases waiting in the wings and more of them will undoubtedly

wend their way through the courts.²⁷ Hence, the Court's forthcoming review – and hopefully its affirmance - of the Federal Circuit's *en banc* holding in *NantKwest* and its consequent implicit extension to *Shammas*, or the direct overruling of *Shammas* via *Booking.Com* would be keenly welcomed across the spectrum of intellectual property stakeholders.

CONCLUSION

Having granted certiorari in *NantKwest*, and given the possibility of certiorari being granted in *Booking.Com*, the Court is poised to decide across-the-board an exceptionally important question of first impression in both patent and trademark law. The Court's back-to-back resolution of these cases - by consolidating or deciding them together to ensure mutually consistent outcomes – would promote the proper and orderly development of federal jurisprudence at the intersection of intellectual property and administrative law.

NantKwest and *Booking.Com* together are the right setting for the Court to answer broadly and definitively a singular question framed by a precise, clear, inter-circuit split of authority. *NantKwest* involves a patent application; *Booking.Com* involves a trademark registration application as did *Shammas*. The Federal Circuit's *en banc* holding in *NantKwest* is diametrically opposite to, and therefore is in clear conflict with, the Fourth Circuit's decision in *Shammas* whose holding was adhered to by the Fourth

27. See, *Realvirt LLC v. Iancu*, No. 2017-1159 (Fed. Cir.); *Taylor v. Lee*, No.1:15-cv-1607 (E.D. Va), 2016 U.S. Dist. LEXIS 191677; *Halozyyme v. Iancu*, No. 1:16-cv-1580, 128 U.S.P.Q.2d 1445 (E.D.Va. 2018).

Circuit in *Booking.Com* under *stare decisis*. The Court can now decide across-the-board which of them will remain the law of the land by judging two counterpart statutes affecting the world-wide community of applicants for U.S. patents and trademark registrations.

For the foregoing reasons and cited authorities, it is respectfully submitted that the Court should affirm the Federal Circuit en banc decision in *NantKwest* and reverse the Fourth Circuit panel decision in *Booking.Com*, thereby overturning the misbegotten holding in *Shammas*.

Respectfully submitted,

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